

DIAGONAL COMMUNITY SCHOOL DISTRICT
INDEPENDENT AUDITOR'S REPORTS
BASIC FINANCIAL STATEMENTS AND
SUPPLEMENTARY INFORMATION
SCHEDULE OF FINDINGS AND QUESTIONED COSTS

JUNE 30, 2007

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Diagonal Community School District

Officials

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Board of Education (Before September 2006 Election)		
Melinda England	President	2007
Phil Mason	Vice President	2006
Becky Stamps	Board Member	2007
Monte Starlin	Board Member	2008
Pam Grace	Board Member	2008
Board of Education (After September 2006 Election)		
Melinda England	President	2007
Phil Mason	Vice President	2009
Becky Stamps	Board Member	2007
Monte Starlin	Board Member	2008
Pam Grace	Board Member	2008
School Officials		
Karleen Stephens	Superintendent	2007
Billie Jo Greene	District Secretary/ Treasurer	2007
Marion James	Attorney	2007

NOLTE, CORNMAN & JOHNSON P.C.
Certified Public Accountants
(a professional corporation)
117 West 3rd Street North, Newton, Iowa 50208-3050
Telephone (641) 792-1910

INDEPENDENT AUDITOR'S REPORT

To the Board of Education of the
Diagonal Community School District:

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of Diagonal Community School District, Diagonal, Iowa, as of and for the year ended June 30, 2007, which collectively comprise the District's basic financial statements listed in the table of contents. These financial statements are the responsibility of District officials. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of Diagonal Community School District at June 30, 2007, and the respective changes in financial position and cash flows, where applicable, for the year then ended in conformity with U.S. generally accepted accounting principles.

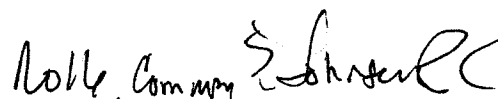
In accordance with Government Auditing Standards, we have also issued our report dated January 18, 2008 on our consideration of Diagonal Community School District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

Management's Discussion and Analysis and budgetary comparison information on pages 4 through 12 and 32 through 33 are not required parts of the basic financial statements, but are supplementary information required by the Governmental Accounting Standards Board.

Members American Institute & Iowa Society of Certified Public Accountants

We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. We did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise Diagonal Community School District's basic financial statements. We previously audited, in accordance with the standards referred to in the second paragraph of this report, the financial statements for three years ended June 30, 2006 (none of which are presented herein) and expressed an unqualified opinion on those financial statements. The supplemental information included in Schedules 1 through 5, including the Schedule of Expenditures of Federal Awards required by U.S. Office of Management and Budget (OMB) Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations, is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in our audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

A handwritten signature in black ink, appearing to read "Nolte, Cornman & Johnson".

NOLTE, CORNMAN & JOHNSON, P.C.

January 18, 2008

MANAGEMENT'S DISCUSSION AND ANALYSIS

Diagonal Community School District provides this Management's Discussion and Analysis of its financial statements. This narrative overview and analysis of the financial activities is for the fiscal year ended June 30, 2007. We encourage readers to consider this information in conjunction with the District's financial statements, which follow.

2007 FINANCIAL HIGHLIGHTS

- General Fund revenues increased from \$1,972,298 in fiscal 2006 to \$2,230,766 in fiscal 2007, while General Fund expenditures increased from \$1,919,544 in fiscal 2006 to \$2,258,347 in fiscal 2007. This resulted in a decrease in the District's General Fund balance from \$356,776 in fiscal 2006 to \$329,195 in fiscal 2007, a 7.73% decrease from the prior year.
- The increase in General Fund revenues was attributable to an increase in tuition, state and federal sources revenue in fiscal 2007. The increase in expenditures was due primarily to an increase in instruction function.
- October 2006 Certified Enrollment count resulted in a decrease of 7 students, representing a 6.73% decrease compared to the prior year.

USING THIS ANNUAL REPORT

The annual report consists of a series of financial statements and other information, as follows:

Management's Discussion and Analysis introduces the basic financial statements and provides an analytical overview of the District's financial activities.

The Government-wide Financial Statements consist of a Statement of Net Assets and a Statement of Activities. These provide information about the activities of Diagonal Community School District as a whole and present an overall view of the District's finances.

The Fund Financial Statements tell how governmental services were financed in the short term as well as what remains for future spending. Fund financial statements report Diagonal Community School District's operations in more detail than the government-wide statements by providing information about the most significant funds. The remaining statements provide financial information about activities for which Diagonal Community School District acts solely as an agent or custodial for the benefit of those outside of the School District.

Notes to the financial statements provide additional information essential to a full understanding of the data provided in the basic financial statements.

Required Supplementary Information further explains and supports the financial statements with a comparison of the District's budget for the year.

Other Supplementary Information provides detailed information about the nonmajor funds. In addition, the Schedule of Expenditures of Federal Awards provides detail of various programs benefiting the District.

Figure A-1 shows how the various parts of this annual report are arranged and relate to one another.

Figure A-1

Diagonal Community School District Annual Financial Report

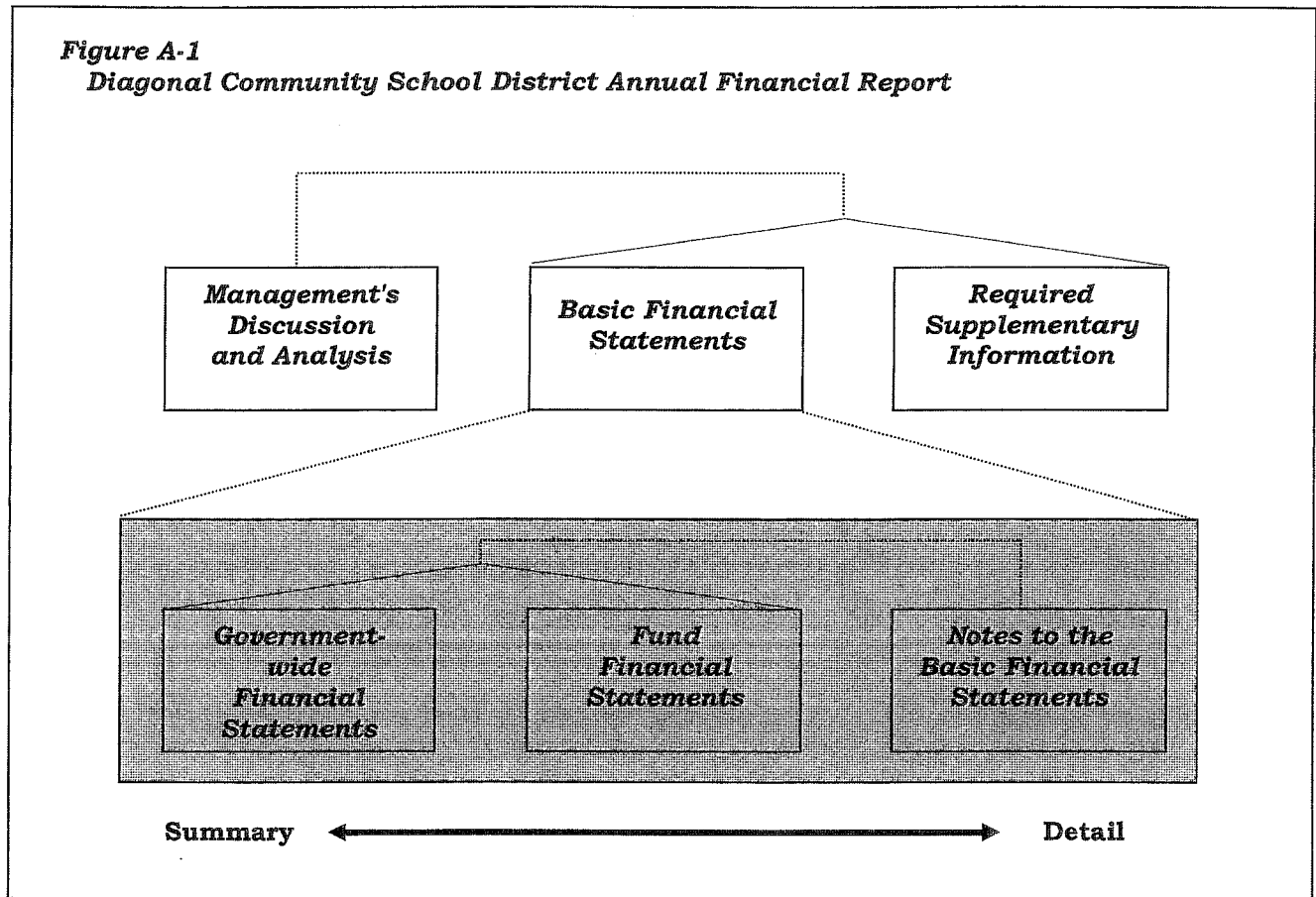


Figure A-2 summarizes the major features of the District's financial statements, including the portion of the District's activities they cover and the types of information they contain.

Figure A-2 Major Features of the Government-wide and Fund Financial Statements			
	Government-wide Statements	Fund Statements	
		Governmental Funds	Proprietary Funds
Scope	Entire district (except fiduciary funds)	The activities of the district that are not proprietary or fiduciary, such as special education and building maintenance	Activities the district operates similar to private businesses: food services and adult education
Required financial statements	<ul style="list-style-type: none"> • Statement of net assets • Statement of activities 	<ul style="list-style-type: none"> • Balance sheet • Statement of revenues, expenditures, and changes in fund balances 	<ul style="list-style-type: none"> • Statement of Net Assets • Statement of revenues, expenses and changes in net assets • Statement of cash flows
Accounting basis and measurement focus	Accrual accounting and economic resources focus	Modified accrual accounting and current financial resources focus	Accrual accounting and economic resources focus
Type of asset/liability information	All assets and liabilities, both financial and capital, short-term and long-term	Generally assets expected to be used up and liabilities that come due during the year or soon thereafter; no capital assets or long-term liabilities included	All assets and liabilities, both financial and capital, and short-term and long-term
Type of inflow/outflow information	All revenues and expenses during year, regardless of when cash is received or paid	Revenues for which cash is received during or soon after the end of the year; expenditures when goods or services have been received and the related liability is due during the year or soon thereafter	All revenues and expenses during the year, regardless of when cash is received or paid

REPORTING THE DISTRICT'S FINANCIAL ACTIVITIES

Government-wide Financial Statements

The government-wide financial statements report information about the District as a whole using accounting methods similar to those used by private-sector companies. The Statement of Net Assets includes all of the District's assets and liabilities. All of the current year's revenues and expenses are accounted for in the Statement of Activities, regardless of when cash is received or paid.

The two government-wide financial statements report the District's net assets and how they have changed. Net assets – the difference between the District's assets and liabilities – are one way to measure the District's financial health or position. Over time, increases or decreases in the District's net assets are an indicator of whether financial position is improving or deteriorating. To assess the District's overall health, additional non-financial factors, such as changes in the

District's property tax base and the condition of school buildings and other facilities, need to be considered.

In the government-wide financial statements, the District's activities are divided into two categories:

- *Governmental activities:* Most of the District's basic services are included here, such as regular and special education, transportation and administration. Property tax and state aid finance most of these activities.
- *Business-type activities:* The District charges fees to help cover the costs of certain services it provides. The District's school nutrition program is included here.

Fund Financial Statements

The fund financial statements provide more detailed information about the District's funds, focusing on its most significant or "major" funds – not the District as a whole. Funds are accounting devices the District uses to keep track of specific sources of funding and spending on particular programs.

Some funds are required by state law and by bond covenants. The District establishes other funds to control and manage money for particular purposes, such as accounting for student activity funds or to show that it is properly using certain revenues such as federal grants.

The District has two kinds of funds:

- 1) *Governmental funds:* Most of the District's basic services are included in governmental funds, which generally focus on (1) how cash and other financial assets that can readily be converted to cash flow in and out and (2) the balances left at year-end that are available for spending. Consequently, the governmental fund statements provide a detailed short-term view that helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the District's programs.

The District's governmental funds include the General Fund, Special Revenue Funds and Capital Projects.

The required financial statements for the governmental funds include a balance sheet and a statement of revenues, expenditures and changes in fund balances.

- 2) *Proprietary funds:* Services for which the District charges a fee are generally reported in proprietary funds. Proprietary funds are reported in the same way as the government-wide financial statements. The District's enterprise funds, one type of proprietary fund, are the same as its business-type activities, but provide more detail and additional information, such as cash flows. The District currently has one enterprise fund, the School Nutrition Fund.

The required financial statements for the proprietary funds include a statement of revenues, expenses and changes in net assets and a statement of cash flows.

Reconciliation between the government-wide financial statements and the fund financial statements follow the fund financial statements.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Figure A-3 below provides a summary of the District's net assets at June 30, 2006 compare to June 30, 2007.

Figure A-3
Condensed Statement of Net Assets

	Governmental Activities		Business-type Activities		Total School District		Total Change
	2007	2006	2007	2006	2007	2006	2006-07
Current and other assets	\$ 1,459,501	1,377,817	28,541	6,939	1,488,042	1,384,756	7.46%
Capital assets	435,585	262,757	7,881	8,826	443,466	271,583	63.29%
Total assets	1,895,086	1,640,574	36,422	15,765	1,931,508	1,656,339	16.61%
Other liabilities	985,056	781,637	5,139	373	990,195	782,010	26.62%
Total liabilities	985,056	781,637	5,139	373	990,195	782,010	26.62%
Net assets:							
Invested in capital assets, net of related debt	435,585	262,757	7,881	8,826	443,466	271,583	63.29%
Restricted	130,037	210,513	0	0	130,037	210,513	-38.23%
Unrestricted	344,408	385,667	23,402	6,566	367,810	392,233	-6.23%
Total net assets	\$ 910,030	858,937	31,283	15,392	941,313	874,329	7.66%

The District's combined net assets increased by 7.66% or \$66,984 over the prior year. A portion of the District's net assets is the invested in capital assets, less the related debt. The debt related to the investment in capital assets is liquidated with sources other than capital assets.

Restricted net assets represent resources that are subject to external restrictions, constitutional provisions, or enabling legislation on how they can be used. The District's restricted net assets decreased \$80,476 or 38.23% over the prior year. The increase was primarily due to the decrease in the fund balance of the Capital Projects Fund.

Unrestricted net assets - the part of net assets that can be used to finance day-to-day operations without constraint established by debt covenants, enabling legislation, or the legal requirement - decreased \$24,423 or 6.23%. The decrease was primarily due to the decrease in the fund balance of the General Fund.

Figure A-4 shows the changes in net assets for the year ended June 30, 2007 compared to June 30, 2006.

Figure A-4
Changes of Net Assets

	Governmental Activities		Business-type Activities		Total School District		Total Change
	2007	2006	2007	2006	2007	2006	2006-07
Revenues:							
Program revenues:							
Charges for services	\$ 502,133	231,947	30,037	22,499	532,170	254,446	109.15%
Operating grants and contributions and restricted interest	884,283	965,514	49,097	34,799	933,380	1,000,313	-6.69%
Capital grants and contributions and restricted interest	0	3,666	0	0	0	3,666	-100.00%
General revenues:							
Property tax	473,808	473,945	0	0	473,808	473,945	-0.03%
Income surtax	42,096	50,533	0	0	42,096	50,533	-16.70%
Local option sales and service tax	51,091	38,579	0	0	51,091	38,579	32.43%
Unrestricted state grants	418,926	343,873	0	0	418,926	343,873	21.83%
Other	57,592	47,668	0	9	57,592	47,677	20.80%
Total revenues	2,429,929	2,155,725	79,134	57,307	2,509,063	2,213,032	13.38%
Program expenses:							
Governmental activities:							
Instructional	1,857,627	1,544,282	0	0	1,857,627	1,544,282	20.29%
Support services	469,591	426,790	0	0	469,591	426,790	10.03%
Non-instructional programs	0	0	63,243	61,132	63,243	61,132	3.45%
Other expenses	51,618	63,698	0	0	51,618	63,698	-18.96%
Total expenses	2,378,836	2,034,770	63,243	61,132	2,442,079	2,095,902	16.52%
Changes in net assets	51,093	120,955	15,891	(3,825)	66,984	117,130	-42.81%
Net assets beginning of year	858,937	737,982	15,392	19,217	874,329	757,199	15.47%
Net assets end of year	\$ 910,030	858,937	31,283	15,392	941,313	874,329	7.66%

In fiscal 2007, property tax, income surtax, local option sales and services tax and unrestricted state grants account for 40.57% of the revenue from governmental activities while charges for service and sales and operating grants and contributions account for 100% of the revenue from business-type activities.

The District's total revenues were \$2,509,063 of which \$2,429,929 was for governmental activities and \$79,134 was for business-type activities.

As shown in Figure A-4, the District as a whole experienced a 13.38% increase in revenues and a 16.52% increase in expenses. Unrestricted state grants increased by \$75,053 to fund increases in expenditures. The increases in expenses were related to increases in negotiated salary and benefits, as well as increased cost due to the Fund for the Improvement of Education PEP grant.

Governmental Activities

Revenues for governmental activities were \$2,429,929 and expenses were \$2,378,836.

The following table presents the total and net cost of the District's major governmental activities: instruction, support services and other expenses.

Figure A-5
Total and Net Cost of Governmental Activities

	Total Cost of Services			Net Cost of Services		
	2007	2006	Change 2006-07	2007	2006	Change 2006-07
Instruction	\$ 1,857,627	1,544,282	20.29%	508,757	378,563	34.39%
Support services	469,591	426,790	10.03%	469,591	426,790	10.03%
Other expenses	51,618	63,698	-18.96%	14,072	28,290	-50.26%
Totals	<u>\$ 2,378,836</u>	<u>2,034,770</u>	<u>16.91%</u>	<u>992,420</u>	<u>833,643</u>	<u>19.05%</u>

- The cost financed by users of the District's programs was \$502,133.
- Federal and state governments subsidized certain programs with grants and contributions totaling \$884,283.
- The net cost of governmental activities was financed with \$473,808 in local tax, \$42,096 in income surtax, \$51,091 in local option sales and service tax, \$418,926 in unrestricted state grants, \$38,587 in interest income and \$19,005 in other general revenues.

Business-Type Activities

Revenues of the District's business-type activities were \$79,134 and expenses were \$63,243. The District's business-type activities include the School Nutrition Fund. Revenues of these activities were comprised of charges for service, federal and state reimbursements and investment income.

INDIVIDUAL FUND ANALYSIS

As previously noted, the Diagonal Community School District uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

The financial performance of the District as a whole is reflected in its governmental funds, as well. As the District completed the year, its governmental funds reported combined fund balance of \$438,020, below last year's ending fund balances of \$560,292. However, the primary reason for the decrease was the decrease in the fund balance of the Capital Projects Fund.

Governmental Fund Highlights

- The District's General Fund balance decreased from \$356,776 on June 30, 2006 to \$329,195 on June 30, 2007. The fluctuation in the District's General Fund financial position is the product of many factors. An increase in the tuition, state and federal source revenue during the year resulted in an increase in total revenues. The increase in expenditures was due to the increases in employee's salaries and benefits, as well as increased costs associated with the Fund for the Improvement in Education PEP grant. Expenditures exceeded revenues causing a decrease in the District's financial position.
- The Capital Projects fund balance decreased from \$86,075 in 2006 to \$10,455 in 2007. This resulted from an increase in local option sales and service tax revenues received during the year that was offset by a major increase in expenditures to improve existing buildings.

Proprietary Fund Highlights

The School Nutrition Fund net assets increased from \$15,392 at June 30, 2006 to \$31,283 at June 30, 2007, representing an increase of 103.24%.

BUDGETARY HIGHLIGHTS

The District's revenues were \$153,577 more than budgeted revenues, a variance of 6.52%. The most significant variance resulted from the District receiving more in local sources than originally anticipated.

Total expenditures were less than budgeted, primarily to the District's budget for the General Fund. It is not the District's practice to budget expenditures at the maximum authorized spending authority for the General Fund. The District's budget is developed utilizing realistic projections of revenues and expenditures. The district then manages or controls General Fund spending through its line-item budget. In situations where revenues exceed projections, and expenditures do not exceed spending authority, the Board may take action to amend the budget authorizing additional expenditures.

In spite of the District's budgetary practice, the certified budget was exceeded in the other expenditures function due to increased capital improvement expenditures without sufficient time to amend the certified budget.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

At June 30, 2007, the District had invested \$443,466, net of accumulated depreciation, in a broad range of capital assets, including land, buildings, athletic facilities, computers, audio-visual equipment and transportation equipment. (See Figure A-6) This amount represents a net increase of 63.29% from last year. More detailed information about capital assets is available in Note 5 to the financial statements. Depreciation expense for the year was \$45,152.

The original cost of the District's capital assets was \$1,243,108. Governmental funds account for \$1,209,223 with the remainder of \$33,885 in the Proprietary, School Nutrition Fund.

The largest percentage change in capital asset activity during the year occurred in the construction in progress category. The District's construction in progress totaled \$105,782 at June 30, 2007, compared to \$0 reported at June 30, 2006. This increase resulted from the start of building improvements for a drop tile ceiling removal and fire walls and doors installation project paid during the year.

Figure A-6
Capital Assets, Net of Depreciation

	Governmental Activities		Business-type Activities		Total School District		Total Change
	2007	2006	2007	2006	2007	2006	2006-07
Land	\$ 7,230	7,230	0	0	7,230	7,230	0.00%
Construction in progress	105,782	0	0	0	105,782	0	100.00%
Buildings	165,634	152,095	0	0	165,634	152,095	8.90%
Land improvements	40,870	43,277	0	0	40,870	43,277	-5.56%
Machinery and equipment	116,069	60,155	7,881	8,826	123,950	68,981	79.69%
Total	\$ 435,585	262,757	7,881	8,826	443,466	271,583	63.29%

Long-Term Debt

At June 30, 2007, there was no long-term debt noted for the District.

ECONOMIC FACTORS BEARING ON THE DISTRICT'S FUTURE

At the time these financial statements were prepared and audited, the District was aware of several existing circumstances that could significantly affect its financial health in the future:

- Low allowable growth over several years and enrollment decreases may negatively impact the District's spending authority. Contractual increases and program changes cannot be made without thorough consideration of our unspent authorized budget. The district's cash balance will support short term funding shortfalls from the state.
- Continued budget concerns at state level will affect future projections. The District has been forced to shift funding to property taxes.
- The District continues to receive Local Option Sales and Services Tax for School Infrastructure (SILO) from Ringgold County. This 1 cent tax on sales and services will greatly benefit the District in maintaining their buildings, purchasing equipment and debt repayment. The funding began in January 2005 and will continue through December 2013.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide the District's citizens, taxpayers, customers, investors and creditors with a general overview of the District's finances and to demonstrate the District's accountability for the money it receives. If you have questions about this report or need additional financial information, contact Billie Jo Greene, District Board Secretary/Treasurer, Diagonal Community School District, 403 W 2nd, P.O. Box 94, Diagonal, Iowa, 50845-0094.

BASIC FINANCIAL STATEMENTS

DIAGONAL COMMUNITY SCHOOL DISTRICT
STATEMENT OF NET ASSETS
JUNE 30, 2007

	Governmental Activities	Business-type Activities	Total
ASSETS			
Cash and pooled investments:			
ISCAP (Note 4)	\$ 275,564	0	275,564
Other	411,203	24,476	435,679
Receivables:			
Property tax:			
Delinquent	7,699	0	7,699
Succeeding year	488,945	0	488,945
Income surtax	36,425	0	36,425
Interfund	3,183	0	3,183
Accounts	4,380	0	4,380
Accrued ISCAP interest (Note 4)	14,021	0	14,021
Due from other governments	218,081	1,644	219,725
Inventories	0	2,421	2,421
Capital assets, net of accumulated depreciation (Note 5)	435,585	7,881	443,466
TOTAL ASSETS	1,895,086	36,422	1,931,508
LIABILITIES			
Interfund payable	0	3,183	3,183
Accounts payable	172,330	1,796	174,126
Salaries and benefits payable	34,251	0	34,251
ISCAP warrants payable (Note 4)	276,000	0	276,000
ISCAP interest payable (Note 4)	11,482	0	11,482
ISCAP premiums payable	2,048	0	2,048
Deferred revenue:			
Succeeding year property tax	488,945	0	488,945
Unearned revenue	0	160	160
TOTAL LIABILITIES	985,056	5,139	990,195
NET ASSETS			
Investment in capital assets, net of related debt	435,585	7,881	443,466
Restricted for:			
Talented and gifted	12,769	0	12,769
Market factor	1,024	0	1,024
At risk	7,419	0	7,419
Capital projects	10,455	0	10,455
Management levy	25,205	0	25,205
Physical plant and equipment levy	56,023	0	56,023
Other special revenue purposes	17,142	0	17,142
Unrestricted	344,408	23,402	367,810
TOTAL NET ASSETS	\$ 910,030	31,283	941,313

SEE NOTES TO BASIC FINANCIAL STATEMENTS.

DIAGONAL COMMUNITY SCHOOL DISTRICT
STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2007

	Program Revenues			Net (Expense) Revenue and Changes in Net Assets	
	Expenses	Charges for Services	Operating Grants, Contributions and Restricted Interest	Governmental Activities	Business-Type Activities
Functions/Programs					
Governmental activities:					
Instruction:					
Regular instruction	\$ 935,370	447,868	386,603	(100,899)	0
Special instruction	184,185	0	6,124	(178,061)	0
Other instruction	738,072	54,265	454,010	(229,797)	0
	<u>1,857,627</u>	<u>502,133</u>	<u>846,737</u>	<u>(508,757)</u>	<u>0</u>
Support services:					
Instructional staff services	20,779	0	0	(20,779)	0
Administration services	220,712	0	0	(220,712)	0
Operation and maintenance of plant services	164,230	0	0	(164,230)	0
Transportation services	63,870	0	0	(63,870)	0
	<u>469,591</u>	<u>0</u>	<u>0</u>	<u>(469,591)</u>	<u>0</u>
Other expenditures:					
AEA flowthrough	37,546	0	37,546	0	0
Depreciation (unallocated)*	14,072	0	0	(14,072)	0
	<u>51,618</u>	<u>0</u>	<u>37,546</u>	<u>(14,072)</u>	<u>0</u>
Total governmental activities	<u>2,378,836</u>	<u>502,133</u>	<u>884,283</u>	<u>(992,420)</u>	<u>0</u>
Business-Type activities:					
Non-instructional programs:					
Nutrition services	63,243	30,037	49,097	0	15,891
Total business-type activities	<u>63,243</u>	<u>30,037</u>	<u>49,097</u>	<u>0</u>	<u>15,891</u>
Total	<u>\$ 2,442,079</u>	<u>532,170</u>	<u>933,380</u>	<u>(992,420)</u>	<u>15,891</u>
General Revenues:					
Local tax for:					
General purposes			\$ 426,031	0	426,031
Capital outlay			47,777	0	47,777
Income surtax			42,096	0	42,096
Local option sales and services tax			51,091	0	51,091
Unrestricted state grants			418,926	0	418,926
Unrestricted investment earnings			38,587	0	38,587
Other general revenues			19,005	0	19,005
Total general revenues			<u>1,043,513</u>	<u>0</u>	<u>1,043,513</u>
Changes in net assets			51,093	15,891	66,984
Net assets beginning of year			858,937	15,392	874,329
Net assets end of year			<u>\$ 910,030</u>	<u>31,283</u>	<u>941,313</u>

SEE NOTES TO BASIC FINANCIAL STATEMENTS.

DIAGONAL COMMUNITY SCHOOL DISTRICT
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2007

	General	Capital Projects	Nonmajor Special Revenue Funds	Total
ASSETS				
Cash and pooled investments				
ISCAP(Note 4)	\$ 275,564	0	0	275,564
Other	276,136	35,263	99,804	411,203
Receivables:				
Property tax				
Delinquent	6,273	0	1,426	7,699
Succeeding year	394,388	0	94,557	488,945
Income surtax	36,425	0	0	36,425
Interfund	3,183	0	0	3,183
Accounts	4,160	0	220	4,380
Accrued ISCAP interest(Note 4)	14,021	0	0	14,021
Due from other governments	210,652	7,429	0	218,081
TOTAL ASSETS	\$ 1,220,802	42,692	196,007	1,459,501
LIABILITIES AND FUND BALANCES				
Liabilities:				
Accounts payable	\$ 137,013	32,237	3,080	172,330
Salaries and benefits payable	34,251	0	0	34,251
ISCAP warrants payable(Note 4)	276,000	0	0	276,000
ISCAP interest payable(Note 4)	11,482	0	0	11,482
ISCAP premiums payable	2,048	0	0	2,048
Deferred revenue:				
Succeeding year property tax	394,388	0	94,557	488,945
Income surtax	36,425	0	0	36,425
Total liabilities	891,607	32,237	97,637	1,021,481
Fund balances:				
Reserved for:				
Talented and gifted	12,769	0	0	12,769
Market factor	1,024	0	0	1,024
At risk	7,419	0	0	7,419
Unreserved:				
Undesignated:				
General	307,983	0	0	307,983
Capital projects	0	10,455	0	10,455
Management levy	0	0	25,205	25,205
Physical plant and equipment levy	0	0	56,023	56,023
Other special revenue purposes	0	0	17,142	17,142
Total fund balances	329,195	10,455	98,370	438,020
TOTAL LIABILITIES AND FUND BALANCES	\$ 1,220,802	42,692	196,007	1,459,501

SEE NOTES TO BASIC FINANCIAL STATEMENTS.

DIAGONAL COMMUNITY SCHOOL DISTRICT
RECONCILIATION OF THE BALANCE SHEET - GOVERNMENTAL FUNDS
TO THE STATEMENT OF NET ASSETS
JUNE 30, 2007

Total fund balances of governmental funds (page 15)	\$ 438,020
<i>Amounts reported for governmental activities in the statement of net assets are different because:</i>	
Capital assets used in governmental activities are not financial resources and, therefore, are not report as assets in in the governmental funds.	435,585
Accounts receivable income surtax, are not yet available to finance expenditures of the current period.	<u>36,425</u>
Net assets of governmental activites (page 13)	<u><u>\$ 910,030</u></u>

SEE NOTES TO BASIC FINANCIAL STATEMENTS.

DIAGONAL COMMUNITY SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
YEAR ENDED JUNE 30, 2007

	General	Capital Projects	Nonmajor Special Revenue Funds	Total
REVENUES:				
Local sources:				
Local tax	\$ 427,608	51,091	87,759	566,458
Tuition	267,538	0	0	267,538
Other	232,411	4,240	55,536	292,187
State sources	705,559	0	0	705,559
Federal sources	597,650	0	0	597,650
Total revenues	2,230,766	55,331	143,295	2,429,392
EXPENDITURES:				
Current:				
Instruction:				
Regular instruction	927,120	0	11,143	938,263
Special instruction	184,185	0	0	184,185
Other instruction	672,030	0	65,530	737,560
	1,783,335	0	76,673	1,860,008
Support services:				
Instructional staff services	12,043	8,736	0	20,779
Administration services	229,767	0	0	229,767
Operation and maintenance of plant services	145,525	0	18,705	164,230
Transportation services	50,131	0	58,217	108,348
	437,466	8,736	76,922	523,124
Other expenditures:				
Facilities acquisitions	0	122,215	8,771	130,986
AEA flowthrough	37,546	0	0	37,546
	37,546	122,215	8,771	168,532
Total expenditures	2,258,347	130,951	162,366	2,551,664
Net change in fund balances	(27,581)	(75,620)	(19,071)	(122,272)
Fund balance beginning of year	356,776	86,075	117,441	560,292
Fund balance end of year	\$ 329,195	10,455	98,370	438,020

SEE NOTES TO BASIC FINANCIAL STATEMENTS.

DIAGONAL COMMUNITY SCHOOL DISTRICT
 RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND
 CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS
 TO THE STATEMENT OF ACTIVITIES
 YEAR ENDED JUNE 30, 2007

Net change in fund balances - total governmental funds (page 17) \$ (122,272)

*Amounts reported for governmental activities in the
 statement of activities are different because:*

Capital outlays to purchase or build capital assets are reported in governmental funds as expenditures. However, those costs are reported in the Statement of Net Assets and are allocated over their estimated useful lives as depreciation expense in the Statement of Activities. The amounts of capital outlays and depreciation expense in the year are as follows:

Expenditures for capital assets	\$ 217,035	
Depreciation expense	<u>(44,207)</u>	172,828

Income surtax account receivable is not available to finance expenditures of the current year period in the governmental funds.

537

Changes in net assets of governmental activities (page 14)

\$ 51,093

SEE NOTES TO BASIC FINANCIAL STATEMENTS.

DIAGONAL COMMUNITY SCHOOL DISTRICT
STATEMENT OF NET ASSETS
PROPRIETARY FUND
JUNE 30, 2007

	<u>School Nutrition</u>
ASSETS	
Cash and pooled investments	\$ 24,476
Due from other governments	1,644
Inventories	2,421
Capital assets, net of accumulated depreciation(Note 5)	7,881
TOTAL ASSETS	<u>36,422</u>
LIABILITIES	
Interfund payable	3,183
Accounts payable	1,796
Unearned revenue	160
TOTAL LIABILITIES	<u>5,139</u>
NET ASSETS	
Invested in capital assets, net of related debt	7,881
Unrestricted	23,402
TOTAL NET ASSETS	<u><u>\$ 31,283</u></u>

SEE NOTES TO BASIC FINANCIAL STATEMENTS.

DIAGONAL COMMUNITY SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
PROPRIETARY FUND
YEAR ENDED JUNE 30, 2007

	<u>School Nutrition</u>
OPERATING REVENUE:	
Local sources:	
Charges for services	\$ 30,037
TOTAL OPERATING REVENUES	<u>30,037</u>
OPERATING EXPENSES:	
Non-instructional programs:	
Food service operations:	
Salaries	16,892
Benefits	3,873
Supplies	41,645
Depreciation	945
TOTAL OPERATING EXPENSES	<u>63,355</u>
OPERATING LOSS	<u>(33,318)</u>
NON-OPERATING REVENUES:	
State sources	4,301
Federal sources	44,908
TOTAL NON-OPERATING REVENUES	<u>49,209</u>
Change in net assets	15,891
Net assets beginning of year	<u>15,392</u>
Net assets end of year	<u>\$ 31,283</u>

SEE NOTES TO BASIC FINANCIAL STATEMENTS.

DIAGONAL COMMUNITY SCHOOL DISTRICT
STATEMENT OF CASH FLOWS
PROPRIETARY FUND
YEAR ENDED JUNE 30, 2007

	<u>School Nutrition</u>
Cash flows from operating activities:	
Cash received from sale of lunches and breakfasts	\$ 30,100
Cash payments to employees for services	(21,041)
Cash payments to suppliers for goods or services	(36,597)
Net cash used in operating activities	<u>(27,538)</u>
Cash flows from non-capital financing activities:	
State grants received	4,301
Federal grants received	39,269
Net cash provided by non-capital financing activities	<u>43,570</u>
Net increase in cash and cash equivalents	16,032
Cash and cash equivalents at beginning of year	<u>5,261</u>
Cash and cash equivalents at end of year	<u>\$ 21,293</u>
Reconciliation of operating loss to net cash used in operating activities:	
Operating loss	\$ (33,318)
Adjustments to reconcile operating loss to net cash used in operating activities:	
Commodities consumed	3,995
Depreciation	945
Decrease in inventories	(743)
Increase in accounts payable	1,796
Decrease in salaries and benefits payable	(276)
Increase in unearned revenues	63
Net cash used in operating activities	<u>\$ (27,538)</u>
RECONCILIATION OF CASH AND CASH EQUIVALENTS AT YEAR END TO SPECIFIC ASSETS INCLUDED ON COMBINED BALANCE SHEET:	
Current assets:	
Cash and pooled investments	<u>\$ 21,293</u>

NON-CASH INVESTING, CAPITAL AND FINANCING ACTIVITIES:

During the year ended June 30, 2007, the District received Federal commodities valued at \$3,995.

SEE NOTES TO BASIC FINANCIAL STATEMENTS.

DIAGONAL COMMUNITY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2007

(1) **Summary of Significant Accounting Policies**

The Diagonal Community School District is a political subdivision of the State of Iowa and operates public schools for children in grades kindergarten through twelve and special education pre-kindergarten. Additionally, the District either operates or sponsors various adult education programs. These courses include remedial education as well as vocational and recreational courses. The geographic area served includes the City of Diagonal, Iowa, and the predominate agricultural territory in Ringgold County. The District is governed by a Board of Education whose members are elected on a non-partisan basis.

The District's financial statements are prepared in conformity with U.S. generally accepted accounting principles as prescribed by the Governmental Accounting Standards Board.

A. Reporting Entity

For financial reporting purposes, Diagonal Community School District has included all funds, organizations, agencies, boards, commissions and authorities. The District has also considered all potential component units for which it is financially accountable, and other organizations for which the nature and significance of their relationship with the District are such that exclusion would cause the District's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body, and (1) the ability of the District to impose its will on that organization or (2) the potential for the organization to provide specific benefits to, or impose specific financial burdens on the District. The Diagonal Community School District has no component units which meet the Governmental Accounting Standards Board criteria.

Jointly Governed Organizations - The District participates in a jointly governed organization that provides services to the District but do not meet the criteria of a joint venture since there is no ongoing financial interest or responsibility by the participating governments. The District is a member of the Ringgold County Assessors' Conference Board.

B. Basis of Presentation

Government-wide Financial Statements - The Statement of Net Assets and the Statement of Activities report information on all of the nonfiduciary activities of the District. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by tax and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support.

The Statement of Net Assets presents the District's nonfiduciary assets and liabilities, with the difference reported as net assets. Net assets are reported in three categories:

Invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation and reduced by outstanding balances for bonds, notes, and other debt that are attributed to the acquisition, construction, or improvement of those assets.

Restricted net assets result when constraints placed on net assets use are either externally imposed or imposed by law through constitutional provisions or enabling legislation.

Unrestricted net asset consist of net assets that do not meet the definition of the two preceding categories. Unrestricted net assets often have constraints on resources that are imposed by management, but can be removed or modified.

The Statement of Activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that clearly identifiable with a specific function. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function and 2) grants, contributions and interest that are restricted to meeting the operational or capital requirements of a particular function. Property tax and other items not properly included among program revenues are reported instead as general revenues.

Fund Financial Statements - Separate financial statements are provided for governmental, proprietary, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements. All remaining governmental funds are aggregated and reported as other nonmajor governmental funds.

The District reports the following major governmental funds:

The General Fund is the general operating fund of the District. All general tax revenues and other receipts that are not allocated by law or contractual agreement to some other fund are accounted for in this fund. From the fund are paid the general operating expenses, including instructional, support and other costs.

The Capital Projects Fund is used to account for all resources used in the acquisition and construction of capital facilities.

The District reports the following major proprietary fund:

The District's proprietary fund is the Enterprise, School Nutrition Fund. The School Nutrition Fund is used to account for the food service operations of the District.

C. Measurement Focus and Basis of Accounting

The government-wide and proprietary fund financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property tax is recognized as revenue in the year for which it is levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been satisfied.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days after year end.

Property tax, intergovernmental revenues (shared revenues, grants and reimbursements from other governments) and interest associated with the current fiscal period are all considered to be susceptible to accrual. All other revenue items are considered to be measurable and available only when cash is received by the District.

Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, principal and interest on long-term debt, claims and judgments, and compensated absences are recognized as expenditures only when payment is due. Capital asset acquisitions are reported as expenditures in governmental funds. Proceeds of general long-term debt and acquisitions under capital leases are reported as other financing sources.

Under terms of grant agreements, the District funds certain programs by a combination of specific cost-reimbursement grants and general revenues. Thus, when program expenses are incurred, there are both restricted and unrestricted net assets available to finance the program. It is the District's policy to first apply cost-reimbursement grant resources to such programs, and then general revenues.

The proprietary fund of the District applies all applicable GASB pronouncements as well as the following pronouncements issued on or before November 30, 1989, unless these pronouncements conflict with or contradict GASB pronouncements: Financial Accounting Standards Board Statements and Interpretations, Accounting Principles Board Opinions, and Accounting Research Bulletins of the Committee on Accounting Procedure.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the District's Enterprise Fund is charges to

customers for sales and services. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

The District maintains its financial records on the cash basis. The financial statements of the District are prepared by making memorandum adjusting entries to the cash basis financial records.

D. Assets, Liabilities and Fund Equity

The following accounting policies are followed in preparing the balance sheet:

Cash, Pooled Investments and Cash Equivalents - The cash balances of most District funds are pooled and invested. Investments are stated at fair value except for the investment in the Iowa Schools Joint Investment Trust which is valued at amortized cost and non-negotiable certificates of deposit which are stated at cost.

For purposes of the statement of cash flows, all short-term cash investments that are highly liquid are considered to be cash equivalents. Cash equivalents are readily convertible to known amounts of cash and, at the day of purchase, they have a maturity date no longer than three months.

Property Tax Receivable - Property tax in the governmental funds are accounted for using the modified accrual basis of accounting.

Property tax receivable is recognized in these funds on the levy or lien date, which is the date that the tax asking is certified by the Board of Education. Delinquent property tax receivable represents unpaid taxes for the current and prior years. The succeeding year property tax receivable represents taxes certified by the Board of Education to be collected in the next fiscal year for the purposes set out in the budget for the next fiscal year. By statute, the District is required to certify its budget in April of each year for the subsequent fiscal year. However, by statute, the tax asking and budget certification for the following fiscal year becomes effective on the first day of that year. Although the succeeding year property tax receivable has been recorded, the related revenue is deferred in both the government-wide and fund financial statements and will not be recognized as revenue until the year for which it is levied.

Property tax revenue recognized in these funds become due and collectible in September and March of the fiscal year with a 1½% per month penalty for delinquent payments; is based on January 1, 2005 assessed property valuations; is for the tax accrual period July 1, 2006 through June 30, 2007 and reflects the tax asking contained in the budget certified to the County Board of Supervisors in April, 2006.

Due from Other Governments - Due from other governments represents amounts due from the State of Iowa, various shared revenues, grants and reimbursements from other governments.

Inventories - Inventories are valued at cost using the first-in, first-out method for purchased items and government commodities. Inventories of proprietary funds are recorded as expenses when consumed rather than when purchased or received.

Capital Assets - Capital assets, which include property, machinery and equipment, are reported in the applicable governmental or business-type activities columns in the government-wide Statement of Net Assets. Capital assets are recorded at historical cost. Donated capital assets are recorded at estimated fair market value at the date of donation. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized. Capital assets are defined by the District as assets with an initial, individual cost in excess of the following thresholds and estimated useful lives in excess of two years.

Asset Class	Amount
Land	\$ 500
Buildings	500
Land improvements	500
Machinery and equipment:	
School Nutrition Fund equipment	500
Other machinery and equipment	500

Property, machinery and equipment are depreciated using the straight line method of depreciation over the following estimated useful lives:

Asset Class	Estimated Useful Lives (In Years)
Buildings	50 years
Land improvements	20 years
Machinery and equipment	5-20 years

Salaries and Benefits Payable - Payroll and related expenditures for annual contracts corresponding to the current school year, which is payable in July and August, have been accrued as liabilities.

Deferred Revenue - Although certain revenues are measurable, they are not available. Available means collected within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period. Deferred revenue in the governmental fund financial statements represent the amount of assets that have been recognized, but the related revenue has not been recognized since the assets are not collected within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period. Deferred revenue consists of unspent grant proceeds as well as property tax receivables and other receivables not collected within sixty days after year end.

Deferred revenue on the Statement of Net Assets consists of succeeding year property tax receivable that will not be recognized as revenue until the year for which it is levied.

Unearned Revenue - Unearned revenues are monies collected for lunches that have not yet been served. The lunch account balances will either be reimbursed or served lunches. The lunch account balances are reflected on the Statement of Net Assets in the Proprietary, School Nutrition Fund.

Long-term Liabilities - In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the governmental activities column in the Statement of Net Assets.

Fund Equity - In the governmental fund financial statements, reservations of fund balance are reported for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose.

Restricted Net Assets - In the government-wide Statement of Net Assets, net assets are reported as restricted when constraints placed on net asset use are either externally imposed by creditors, grantors, contributors or laws and regulations of other governments or imposed by law through constitutional provisions or enabling legislation.

E. Budgeting and Budgetary Control

The budgetary comparison and related disclosures are reported as Required Supplementary Information. During the year ended June 30, 2007, expenditures in the other expenditures function exceeded the amount budgeted.

(2) **Cash and Pooled Investments**

The District's deposits at June 30, 2007 were entirely covered by federal depository insurance or State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

The District is authorized by statute to invest public funds in obligations of the United States government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the Board of Education; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; certain joint investment trusts; and warrants or improvement certificates of a drainage district.

The District had investments in the Iowa Schools Joint Investment Trust as follows:

	Amortized Cost
Diversified Portfolio	\$ 179,840

The investments are valued at an amortized cost pursuant to Rule 2a-7 under the Investment Company Act of 1940.

(3) Interfund Receivables and Payables

The detail of interfund receivables and payables at June 30, 2007 is as follows:

Receivable Fund	Payable Fund	Amount
General	Enterprise - School Nutrition	<u>\$ 3,183</u>

The Enterprise, School Nutrition Fund is repaying the General Fund for salaries and benefits in the prior year. The balance will be repaid by June 30, 2008.

(4) Iowa School Cash Anticipation Program (ISCAP)

The District participates in the Iowa Schools Cash Anticipation Program (ISCAP). ISCAP is a program of the Iowa Association of School Boards and is designed to provide funds to participating entities during periods of cash deficits. ISCAP is funded by a semiannual issuance of anticipatory warrants, which mature as noted below. The warrant sizing of each school corporation is based on a projection of cash flow needs during the semiannual period. ISCAP accounts are maintained for each participating entity, and monthly statements are provided regarding their cash balance, interest earnings, and amounts available for withdrawal for each outstanding series of warrants. These accounts are reflected as restricted assets on the balance sheet. Bankers Trust Co. NA is the trustee for the program. A summary of the District's participation in ISCAP as of June 30, 2007 is as follows:

Series	Warrant Date	Final Warrant Maturity	Investments	Accrued Interest Receivable	Warrants Payable	Accrued Interest Payable
2006-07A	6/28/06	6/28/07	\$ 0	13,939	0	11,412
2007-08A	6/28/07	6/27/08	275,564	82	276,000	70
			<u>\$ 275,564</u>	<u>14,021</u>	<u>276,000</u>	<u>11,482</u>

The District pledges its state foundation aid payments and General Fund receipts as security for warrants issued. Repayments must be made when General Fund receipts are received. If a balance is outstanding on the last date the funds are available to be drawn, then the District must repay the outstanding withdrawal from its General Fund receipts, and must make minimum warrant repayments on the 25th of each month immediately following the final date that the warrant proceeds may be used in an amount equal to 25% of the warrant amount. No ISCAP advance activity in the General Fund was noted for the year ended June 30, 2007.

The warrants bear an interest rate and the available proceeds of the warrants are invested at an interest rate as shown below:

Series	Interest Rates on Warrants	Interest Rates on Investments
2006-07A	4.500%	5.676%
2007-08A	4.500%	5.455%

(5) Capital Assets

Capital assets activity for the year ended June 30, 2007 is as follows:

	Balance Beginning of Year	Increases	Decreases	Balance End of Year
Governmental activities:				
Capital assets not being depreciated:				
Land	\$ 7,230	0	0	7,230
Construction in progress	0	105,782	0	105,782
Total capital assets not being depreciated	7,230	105,782	0	113,012
Capital assets being depreciated:				
Buildings	572,341	25,204	0	597,545
Land improvements	48,152	0	0	48,152
Machinery and equipment	409,465	86,049	45,000	450,514
Total capital assets being depreciated	1,029,958	111,253	45,000	1,096,211
Less accumulated depreciation for:				
Buildings	420,246	11,665	0	431,911
Land improvements	4,875	2,407	0	7,282
Machinery and equipment	349,310	30,135	45,000	334,445
Total accumulated depreciation	774,431	44,207	45,000	773,638
Total capital assets being depreciated, net	255,527	67,046	0	322,573
Governmental activities capital assets, net	\$ 262,757	172,828	0	435,585
Business-type activities:				
Machinery and equipment	\$ 33,885	0	0	33,885
Less accumulated depreciation	25,059	945	0	26,004
Business-type activities capital assets, net	\$ 8,826	(945)	0	7,881

Depreciation expense was charged by the District as follows:

Governmental activities:

Instruction:

Regular	\$ 17,295
Other	512

Support services:

Administration	116
Transportation	12,212
	<u>30,135</u>

Unallocated depreciation	<u>14,072</u>
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Total governmental activities depreciation expense	<u>\$ 44,207</u>
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Business-type activities:

Food services	\$ 945
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Total business-type activities depreciation expense	<u>\$ 945</u>
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(6) Pension and Retirement Benefits

The District contributes to the Iowa Public Employees Retirement System (IPERS) which is a cost-sharing multiple-employer defined benefit pension plan administered by the State of Iowa. IPERS provides retirement and death benefits which are established by State statute to plan members and beneficiaries. IPERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to IPERS, P.O. Box 9117, Des Moines, Iowa, 50306-9117.

Plan members are required to contribute 3.70% of their annual salary and the District is required to contribute 5.75% of annual covered payroll for the years ended June 30, 2007, 2006 and 2005. Contribution requirements are established by State statute. The District's contribution to IPERS for the years ended June 30, 2007, 2006 and 2005 were \$75,379, \$73,411 and \$65,495 respectively, equal to the required contributions for each year.

(7) Risk Management

Diagonal Community School District is exposed to various risks of loss related to torts; theft; damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. These risks are covered by the purchase of commercial insurance. The District assumes liability for any deductibles and claims in excess of coverage limitations. Settled claims from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

(8) Area Education Agency

The District is required by the Code of Iowa to budget for its share of special education support, media and educational services provided through the area education agency. The District's actual amount for this purpose totaled \$37,546 for the year ended June 30, 2007 and is recorded in the General Fund by making a memorandum adjusting entry to the cash basis financial statements.

(9) Budget Overexpenditure

Per the Code of Iowa, expenditures may not legally exceed budgeted appropriations at the functional area level. During the year ended June 30, 2007, expenditures in the other expenditures function exceeded the amount budgeted.

(10) Construction Commitment

The District has entered into contracts totaling \$152,150 for removal of a drop tile ceiling and installing fire walls and doors project. As of June 30, 2007, costs of \$105,782 had been incurred against the contracts. The balance of \$46,368 remaining at June 30, 2007 will be paid as work on the project progresses.

REQUIRED SUPPLEMENTARY INFORMATION

DIAGONAL COMMUNITY SCHOOL DISTRICT
BUDGETARY COMPARISON OF REVENUES, EXPENDITURES AND
CHANGES IN BALANCES -
BUDGET AND ACTUAL - ALL GOVERNMENTAL FUNDS
AND PROPRIETARY FUNDS
REQUIRED SUPPLEMENTARY INFORMATION
YEAR ENDED JUNE 30, 2007

	Governmental Fund Types Actual	Proprietary Fund Type Actual	Total Actual	Budgeted Amounts		Final to Actual Variance - Positive (Negative)
				Original	Final	
Revenues:						
Local sources	\$ 1,126,183	30,037	1,156,220	927,670	927,670	228,550
State sources	705,559	4,301	709,860	822,279	822,279	(112,419)
Federal sources	597,650	44,796	642,446	605,000	605,000	37,446
Total revenues	2,429,392	79,134	2,508,526	2,354,949	2,354,949	153,577
Expenditures:						
Instruction	1,860,008	0	1,860,008	2,121,680	2,121,680	261,672
Support services	523,124	0	523,124	607,337	607,337	84,213
Non-instructional programs	0	63,243	63,243	77,675	77,675	14,432
Other expenditures	168,532	0	168,532	110,519	110,519	(58,013)
Total expenditures	2,551,664	63,243	2,614,907	2,917,211	2,917,211	302,304
Excess(deficiency) of receipts over(under) disbursements	(122,272)	15,891	(106,381)	(562,262)	(562,262)	455,881
Balance beginning of year	560,292	15,392	575,684	562,262	562,262	13,422
Balance end of year	\$ 438,020	31,283	469,303	0	0	469,303

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

DIAGONAL COMMUNITY SCHOOL DISTRICT
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION - BUDGETARY REPORTING
YEAR ENDED JUNE 30, 2007

This budgetary comparison is presented as Required Supplementary Information in accordance with Governmental Accounting Standards Board Statement No. 41 for governments with significant budgetary perspective differences resulting from not being able to present budgetary comparison for the General Fund and each major Special Revenue Fund.

In accordance with the Code of Iowa, the Board of Education annually adopts a budget following required public notice and hearing for all funds, except Private Purpose Trust and Agency Funds. The budget may be amended during the year utilizing similar statutorily prescribed procedures. The District's budget is prepared on the GAAP basis.

Formal and legal budgetary control for the certified budget is based upon four major classes of expenditures known as functions, not by fund. These four functions are instruction, support services, non-instructional programs and other expenditures. Although the budget document presents function expenditures or expenses by fund, the legal level of control is at the aggregated functional level, not by fund. The Code of Iowa also provides that District expenditures in the General Fund may not exceed the amount authorized by the school finance formula.

During the year ended June 30, 2007, expenditures in the other expenditures function exceeded the amount budgeted.

OTHER SUPPLEMENTARY INFORMATION

DIAGONAL COMMUNITY SCHOOL DISTRICT
COMBINING BALANCE SHEET
NONMAJOR SPECIAL REVENUE FUNDS
JUNE 30, 2007

	Nonmajor Special Revenue Funds			
	Manage- ment	Student Activity	Physical Plant and Equipment Levy	Total Special Revenue Funds
ASSETS				
Cash and pooled investments	\$ 24,555	20,002	55,247	99,804
Receivables:				
Property tax:				
Delinquent	650	0	776	1,426
Succeeding year property tax	45,000	0	49,557	94,557
Accounts	0	220	0	220
TOTAL ASSETS	\$ 70,205	20,222	105,580	196,007
LIABILITIES AND FUND BALANCES				
Liabilities:				
Accounts payable	\$ 0	3,080	0	3,080
Deferred revenue:				
Succeeding year property tax	45,000	0	49,557	94,557
	45,000	3,080	49,557	97,637
Fund balances:				
Unreserved fund balances	25,205	17,142	56,023	98,370
	25,205	17,142	56,023	98,370
TOTAL LIABILITIES AND FUND BALANCES	\$ 70,205	20,222	105,580	196,007

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

DIAGONAL COMMUNITY SCHOOL DISTRICT
 COMBINING SCHEDULE OF REVENUES, EXPENDITURES AND
 CHANGES IN FUND BALANCES
 NONMAJOR SPECIAL REVENUE FUNDS
 YEAR ENDED JUNE 30, 2007

	Nonmajor Special Revenue Funds			
	Manage- ment	Student Activity	Physical Plant and Equipment Levy	Total Special Revenue Funds
REVENUES:				
Local sources:				
Local tax	\$ 39,982	0	47,777	87,759
Other	0	54,265	1,271	55,536
TOTAL REVENUES	39,982	54,265	49,048	143,295
EXPENDITURES:				
Current:				
Instruction:				
Regular instruction	11,143	0	0	11,143
Other instruction	0	65,530	0	65,530
Support services:				
Operation and maintenance of plant services	18,705	0	0	18,705
Transportation services	3,127	0	55,090	58,217
Other expenditures:				
Facilities acquisition	0	0	8,771	8,771
TOTAL EXPENDITURES	32,975	65,530	63,861	162,366
Net change in fund balances	7,007	(11,265)	(14,813)	(19,071)
Fund balance beginning of year	18,198	28,407	70,836	117,441
Fund balance end of year	\$ 25,205	17,142	56,023	98,370

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

DIAGONAL COMMUNITY SCHOOL DISTRICT
 SCHEDULE OF CHANGES IN SPECIAL REVENUE FUND, STUDENT ACTIVITY ACCOUNTS
 YEAR ENDED JUNE 30, 2007

Account	Balance Beginning of Year	Revenues	Expendi- tures	Balance End of Year
Athletics	\$ 4,369	13,062	16,065	1,366
Concessions	9,143	12,838	14,457	7,524
Class of 2005	19	0	0	19
Class of 2006	382	179	77	484
Class of 2007	3,729	7,286	11,221	(206)
Class of 2008	0	9,188	6,939	2,249
Class of 2009	0	0	40	(40)
Annual	2,186	3,225	4,177	1,234
Drama	1,210	721	687	1,244
Music	273	1,537	1,899	(89)
Student Council	19	91	0	110
Other	1,794	3,548	2,997	2,345
Dekko KS	1,284	2,590	3,874	0
2005 Dekko	3,097	0	3,097	0
Memorial	902	0	0	902
	<u>\$ 28,407</u>	<u>54,265</u>	<u>65,530</u>	<u>17,142</u>

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

DIAGONAL COMMUNITY SCHOOL DISTRICT
 SCHEDULE OF REVENUES BY SOURCE AND EXPENDITURES BY FUNCTION
 ALL GOVERNMENTAL FUND TYPES
 FOR THE LAST FOUR YEARS

		Modified Accrual Basis			
		Years Ended June 30,			
		2007	2006	2005	2004
Revenues:					
Local sources:					
Local tax	\$	566,458	559,857	546,400	544,656
Tuition		267,538	92,408	67,507	51,087
Other		292,187	391,741	91,851	126,058
State sources		705,559	594,677	660,783	548,636
Federal sources		597,650	513,842	675,119	681,393
Total	\$	2,429,392	2,152,525	2,041,660	1,951,830
Expenditures:					
Current:					
Instruction:					
Regular instruction	\$	938,263	789,828	699,770	1,108,158
Special instruction		184,185	161,538	280,114	256,790
Other instruction		737,560	603,817	589,192	87,919
Support services:					
Student services		0	0	7,702	0
Instructional staff services		20,779	21,308	2,285	8,197
Administration services		229,767	200,702	210,383	167,842
Operation and maintenance of plant services		164,230	143,747	141,915	193,348
Transportation services		108,348	56,573	37,790	42,674
Non-instructional programs		0	0	0	36,781
Other expenditures:					
Facilities acquisitions		130,986	38,958	16,495	0
Long-term debt:					
Principal		0	0	893	15,706
Interest and fiscal charges		0	0	30	1,550
AEA flow-through		37,546	35,408	35,430	35,560
Total	\$	2,551,664	2,051,879	2,021,999	1,954,525

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

DIAGONAL COMMUNITY SCHOOL DISTRICT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED JUNE 30, 2007

GRANTOR/PROGRAM	CFDA NUMBER	GRANT NUMBER	PROGRAM EXPENDITURES
DIRECT:			
DEPARTMENT OF EDUCATION:			
FUND FOR THE IMPROVEMENT OF EDUCATION	84.215	FY 07	\$ 454,010
RURAL EDUCATION ACHIEVEMENT PROGRAM (REAP)	84.358	FY 07	14,402
INDIRECT:			
DEPARTMENT OF AGRICULTURE:			
IOWA DEPARTMENT OF EDUCATION:			
FOOD DONATION	10.550	FY 07	3,995
SCHOOL NUTRITION CLUSTER PROGRAMS:			
SCHOOL BREAKFAST PROGRAM	10.553	FY 07	5,943
NATIONAL SCHOOL LUNCH PROGRAM	10.555	FY 07	28,287
SUMMER FOOD SERVICE PROGRAM FOR CHILDREN	10.559	FY 07	6,683
			40,913
DEPARTMENT OF EDUCATION:			
IOWA DEPARTMENT OF EDUCATION:			
TITLE I GRANTS TO LOCAL EDUCATIONAL AGENCIES	84.010	1782-G	43,930
SAFE AND DRUG-FREE SCHOOLS AND COMMUNITIES - STATE GRANTS	84.186	FY 07	891
INNOVATIVE EDUCATION PROGRAM STRATEGIES (TITLE V PROGRAM)	84.298	FY 07	193
TITLE IIA - FEDERAL TEACHER QUALITY PROGRAM	84.367	FY 07	7,346
GRANTS FOR STATE ASSESSMENTS AND RELATED ACTIVITIES (TITLE VI A)	84.369	FY 07	658
CLEARFIELD COMMUNITY SCHOOL DISTRICT:			
READING FIRST STATE GRANTS	84.357	FY 07	17,190
AREA EDUCATION AGENCY:			
SPECIAL EDUCATION - GRANTS TO STATES (PART B)	84.027	FY 07	6,124

DIAGONAL COMMUNITY SCHOOL DISTRICT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED JUNE 30, 2007

GRANTOR/PROGRAM	CFDA NUMBER	GRANT NUMBER	PROGRAM EXPENDITURES
INDIRECT (CONTINUED):			
AREA EDUCATION AGENCY (CONTINUED):			
ENHANCING EDUCATION THROUGH TECHNOLOGY (E2T2)	84.318	FY 07	<u>1,111</u>
CORPORATION FOR NATIONAL AND COMMUNITY SERVICE:			
IOWA DEPARTMENT OF EDUCATION:			
LEARN AND SERVE AMERICA - SCHOOL AND COMMUNITY BASED PROGRAM (COMSERV)	94.004	FY 07	<u>394</u>
DEPARTMENT OF HUMAN SERVICES:			
IOWA DEPARTMENT OF EDUCATION:			
CHILD CARE DEVELOPMENT BLOCK GRANTS WRAP AROUND GRANT	93.575	FY 07	<u>48,000</u>
TOTAL			<u>\$ 639,157</u>

Basis of Presentation - The Schedule of Expenditures of Federal Awards includes the federal grant activity of the Diagonal Community School District and is presented in conformity with the accrual or modified accrual basis of accounting. The information on this schedule is presented in accordance with the requirements of OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

NOLTE, CORNMAN & JOHNSON P.C.
Certified Public Accountants
(a professional corporation)
117 West 3rd Street North, Newton, Iowa 50208-3050
Telephone (641) 792-1910

Independent Auditor's Report on Internal Control over Financial Reporting and on
Compliance and Other Matters Based on an Audit of Financial Statements Performed in
Accordance with Government Auditing Standards

To the Board of Education of the
Diagonal Community School District:

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of Diagonal Community School District as of and for the year ended June 30, 2007, which collectively comprise the District's basic financial statements listed in the table of contents, and have issued our report thereon dated January 18, 2008. We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Diagonal Community School District's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing our opinion on the effectiveness of Diagonal Community School District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of Diagonal Community School District's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies and other deficiencies we consider to be material weaknesses.

A control deficiency exists when the design or operation of the control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects Diagonal Community School District's ability to initiate, authorize, record, process, or report financial data reliably in accordance with U.S. generally accepted accounting principles such that there is more than a remote likelihood a misstatement of Diagonal Community School District's financial statements that is more than inconsequential will not be prevented or detected by Diagonal Community School District's internal control. We consider the deficiencies in internal control described in Part II of the accompanying Schedule of Findings and Questioned Costs to be significant deficiencies in internal control over financial reporting.

A material weakness is a significant deficiency, or combination of significant deficiencies that results in more than a remote likelihood a material misstatement of the financial statements will not be prevented or detected by Diagonal Community School District's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, of the significant deficiencies described above, we believe item II-A-07 is a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Diagonal Community School District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, non-compliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of non-compliance or other matters that are required to be reported under Government Auditing Standards. However, we noted certain immaterial instances of non-compliance or other matters that are described in Part IV of the accompanying Schedule of Findings and Questioned Costs.

Comments involving statutory and other legal matters about the District's operations for the year ended June 30, 2007 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the District. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

Diagonal Community School District's responses to findings identified in our audit are described in the accompanying Schedule of Findings and Questioned Costs. While we have expressed our conclusions on the District's responses, we did not audit Diagonal Community School District's responses and, accordingly, we express no opinion on them.

This report, a public record by law, is intended solely for the information and use of the officials, employees and citizens of Diagonal Community School District and other parties to whom Diagonal Community School District may report, including federal awarding agencies and pass-through entities. This report is not intended to be and should not be used by anyone other than these specified parties.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of Diagonal Community School District during the course of our audit. Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.


NOLTE, CORNMAN & JOHNSON, P.C.

January 18, 2008

NOLTE, CORNMAN & JOHNSON P.C.

Certified Public Accountants

(a professional corporation)

117 West 3rd Street North, Newton, Iowa 50208-3050

Telephone (641) 792-1910

Independent Auditor's Report on Compliance with Requirements Applicable to Each Major Program and Internal Control over Compliance in Accordance with OMB Circular A-133

To the Board of Education of
Diagonal Community School District

Compliance

We have audited the compliance of Diagonal Community School District with the types of compliance requirements described in U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that are applicable to each of its major federal programs for the year ended June 30, 2007. Diagonal Community School District's major federal programs are identified in Part I of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts and grant agreements applicable to each of its major federal programs is the responsibility of Diagonal Community School District's management. Our responsibility is to express an opinion on Diagonal Community School District's compliance based on our audit.

We conducted our audit of compliance in accordance with U.S. generally accepted auditing standards, the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States, and OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether non-compliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Diagonal Community School District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on Diagonal Community School District's compliance with those requirements.

In our opinion, Diagonal Community School District complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2007.

Internal Control Over Compliance

The management of Diagonal Community School District is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grant agreements applicable to federal programs. In planning and performing our audit, we considered Diagonal Community School District's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Diagonal Community School District's internal control over compliance.

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in the District's internal control that might be significant deficiencies or material weaknesses as defined below. However, as discussed below, we identified a deficiency in internal control over compliance that we consider to be a material weakness.

A control deficiency in the District's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a federal program on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the District's ability to administer a federal program such that there is more than a remote likelihood noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the District's internal control. We consider the deficiency in internal control over compliance described in the accompanying Schedule of Findings and Questioned Costs as item III-A-07 to be a significant deficiency.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the District's internal control. We consider the significant deficiency in internal control over compliance described in the accompanying Schedule of Findings and Questioned Costs as item III-A-07 to be a material weakness.

Diagonal Community School District's responses to the findings identified in our audit are described in the accompanying Schedule of Findings and Questioned Costs. While we expressed our conclusions on the District's responses, we did not audit Diagonal Community School District's responses and, accordingly, we express no opinion on them.

This report, a public record by law, is intended solely for the information and use of the officials, employees and citizens of Diagonal Community School District and other parties to whom Diagonal Community School District may report, including federal awarding agencies and pass-through entities. This report is not intended to be and should not be used by anyone other than these specified parties.


NOLTE, CORNMAN & JOHNSON, P.C.

January 18, 2008

DIAGONAL COMMUNITY SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2007

Part I: Summary of the Independent Auditor's Results

- (a) An unqualified opinion was issued on the financial statements.
- (b) Significant deficiencies in internal control over financial reporting were disclosed by the audit of the financial statements, including a material weakness.
- (c) The audit did not disclose any non-compliance which is material to the financial statements.
- (d) A significant deficiency in internal control over major programs was disclosed by the audit of the financial statements, which was considered to be a material weakness.
- (e) An unqualified opinion was issued on compliance with requirements applicable to each major program.
- (f) The audit disclosed audit findings which were required to be reported in accordance with Office of Management and Budget Circular A-133, Section .510(a).
- (g) Major program was as follows:
 - Individual
 - CFDA Number 84.215 - Fund for the Improvement of Education
- (h) The dollar threshold used to distinguish between Type A and Type B programs was \$300,000.
- (i) Diagonal Community School District did not qualify as a low-risk auditee.

DIAGONAL COMMUNITY SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2007

Part II: Findings Related to the Basic Financial Statements:

INSTANCES OF NON-COMPLIANCE:

No matters were reported.

SIGNIFICANT DEFICIENCY:

II-A-07 Segregation of Duties - One important aspect of the internal control structure is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. We noted that the cash receipts listing, bank deposits and the posting of the cash receipts to the cash receipts journal were all done by the same person.

Recommendation - We realize that with a limited number of office employees, segregation of duties is difficult. However the District should review its control procedures to obtain the maximum internal control possible under the circumstances.

Response - We will investigate available alternatives and implement as soon as possible.

Conclusion - Response accepted.

DIAGONAL COMMUNITY SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2007

Part III: Findings and Questioned Costs For Federal Awards:

INSTANCES OF NON-COMPLIANCE:

No matters were reported.

SIGNIFICANT DEFICIENCY:

CFDA Number 84.215 - Fund for the Improvement of Education

Federal Award Year: 2007

U.S. Department of Education

III-A-07 Segregation of Duties - One important aspect of the internal control structure is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. We noted that the cash receipts listing, bank deposits and the posting of the cash receipts to the cash receipts journal were all done by the same person.

Recommendation - We realize that with a limited number of office employees, segregation of duties is difficult. However the District should review its control procedures to obtain the maximum internal control possible under the circumstances.

Response - We will investigate available alternatives and implement as soon as possible.

Conclusion - Response accepted.

DIAGONAL COMMUNITY SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2007

Part IV: Other Findings Related to Statutory Reporting

IV-A-07 Certified Budget - District expenditures for the year ended June 30, 2007 exceeded the amount budgeted in the other expenditures function.

Recommendation - The budget should have been amended in accordance with Chapter 24.9 of the Code of Iowa before expenditures were allowed to exceed the budget.

Response - We will amend the budget if necessary in the future.

Conclusion - Response accepted.

IV-B-07 Questionable Disbursements - We noted no disbursements that may not meet the requirements for public purpose as defined in an Attorney General's opinion dated April 25, 1979.

IV-C-07 Travel Expense - No expenditures of District money for travel expenses of spouses of District officials or employees were noted. No travel advances to District officials or employees were noted.

IV-D-07 Business Transactions - No business transactions between the District and District officials were noted.

IV-E-07 Bond Coverage - Surety bond coverage of District officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to insure that the coverage is adequate for current operations.

IV-F-07 Board Minutes - We noted no transactions requiring Board approval which have not been approved by the Board.

IV-G-07 Certified Enrollment - We noted no variances in the basic enrollment data certified to the Department of Education.

IV-H-07 Deposits and Investments - We noted no instances of non-compliance with the deposit and investment provisions of Chapter 12B and Chapter 12C of the Code of Iowa and the District's investment policy. However, we did note that the District was not receiving the proper interest rate, set by the State Rate Setting Committee, on their Certificates of Deposit.

Recommendation - The District should contact the appropriate bank and rectify the situation.

Response - The financial institution where the certificate of deposit was purchased was contacted and the rate of interest was corrected.

Conclusion - Response accepted.

IV-I-07 Certified Annual Report - The Certified Annual Report was filed with the Department of Education timely, and we noted no significant deficiencies in the amounts reported.

IV-J-07 Competitive Bid and Notice of Public Hearing for Public Improvements - The District did not competitively bid a Building Improvement project exceeding the threshold of \$100,000 established by Chapter 26.3 of the Code of Iowa. The District did not publish a notice of public hearing on the Building Improvement project in the time period required by Chapter 26.2 through 26.13 of the Code of Iowa.

Recommendation - The District should review Chapter 26.2 through 26.13 of the Code of Iowa with regards to public improvement projects. The District should review procedures in place for future capital improvement projects requiring competitive bids and public hearings.

Response - We will review Chapter 26.2 through 26.13 of the Code of Iowa and review procedures in place with regards to public improvement projects.

Conclusion - Response accepted.

IV-K-07 Local Option Sales and Services Tax Expenditures - Under the District's revenue purpose statement for local option sales and services tax, the District is allowed to use the monies the same as Physical Plant and Equipment Levy Fund tax dollars. Thus, according to Chapter 298.3 of the Code of Iowa the Capital Projects - Local Option Sales and Services Tax monies may be used for a purchase of a single unit of technology equipment exceeding \$500 per unit. We noted during our audit that the District purchased a printer from the Capital Projects Fund for \$380.55, which is less than \$500 per single unit.

Recommendation - The District should review Chapter 298.3 of the Code of Iowa with regard to allowable expenditures. The District has made the corrective transfer to the Capital Projects Fund from the General Fund.

Response - We will review Chapter 298.3 of the Code of Iowa.

Conclusion - Response accepted.